

Investor Conference Call**Second Quarter of Financial Year 2012-13**

**Amit Kasat,
Standard
Chartered**

On behalf of Standard Chartered equity stream, I welcome all the participants to the Q2 FY13 investor conference call of Apollo Tyres. From the Management side we have Gaurav Kumar, Group Head, Corporate Strategy & Finance; Rakesh Dewan, Head, Accounts and Ritu Kumar, Head, Financial Planning & Control. I now hand over the floor to Gaurav.

**Gaurav Kumar,
Apollo Tyres**

Good Afternoon! Welcome to Apollo Tyres' earnings call for the September quarter. I would begin with opening comments and post that would be happy to on any questions. On a consolidated basis, sales for the quarter were Rs 33.7 billion with a growth of 18% over the same quarter last year. The EBITDA margin continued to be significantly better, than the same quarter last year, at 11.3% with Rs 3.8 billion. The raw material cost has come down vis-à-vis the same quarter last year; it has also declined marginally on a sequential basis. The half yearly revenue was Rs 65.4 billion with a growth rate of 15%, over the same period last year, and the EBITDA margin for the first half was at Rs 7.4 billion at 11.4%, compared to 8.6% for the same period last year. The net debt for the Company was at Rs 29.4 billion, with a net debt equity ratio just below 1:1; and again lower for the same period last year.

Moving on to Apollo's specific Operations, I would start with Indian Operations. Even though traditionally this quarter is a weaker quarter, we had a topline growth both year on year basis and also sequentially. The economy continued to be weak, particularly for the automotive industry; truck production was down 18% and car production down 1%. Sales for the Indian Operations for the quarter were at Rs 22.8 billion, a growth rate of 24% over the same period last year. Most of the growth came through volumes and some through price and mix improvement. The EBITDA margin for this quarter was Rs 2.3 billion at 10.3%, again significantly better than the same period last year; with a similar improvement on the net profit margin, which was 3.3% as compared to 1.2% for the same period last year. Apart from the volume and mix, the beneficial impact also came through the softening of raw materials.

Product development continues in all product categories with new product launches, particularly in the truck bus radial (TBR) category where Apollo is introducing new sizes even as it goes to various markets. Apart from focusing on domestic markets, the Company has been concentrating on developing certain international markets – namely ASEAN, Australia and the Middle East – which are overseen by Indian Operations, with people placed there, thus positioning



Apollo for future growth. In the truck radial segment, Apollo has crossed the output of 5000 tyres per day at the Chennai plant and has emerged in a leadership position, in a very short span of time, within the TBR market.

Lastly, starting from October 23rd, the Company faced some disruption at the Vadodara plant. There is no strike or lockout as has been reported. There has been a demand for the formation of a fourth union due to influence of external factors. Production on the cross ply side has been impacted. The Management stands firm and Apollo is trying to resolve this issue; as of now it is difficult to comment further on that.

Moving on to the South African Operations, the economy continues to grow slowly; however, for the tyre industry the challenges of full capacity utilisation, industrial climate and Chinese imports continue; plus recent strikes in mining and transportation industry have also impacted the industry. The sales for the South African Operations for the current quarter were at Rs 3.9 billion, with a growth of 29% over last year. A large part of this growth came through exports, as the Company is trying to develop new geographies. The EBITDA again, because of some of the challenges, slipped to 2.3% as compared to a 4.2% in the same period last year; and at a net profit level, the Company was at a loss of 2.2%.

Some of the other steps taken for improving the profitability and developing this geography have been introduction of brand Apollo and brand Vredestein tyres; the feedback has been encouraging and the Company will continue to focus on furthering the growth of the same. One of the recent developments by the authorities has been the implementation of a reference price for tyres, keeping in mind the extremely low prices at which imports from China were coming in as a potential duty evasion; and very recently they have now started stopping some containers which are below the reference price. This could possibly have a favourable impact in the future, though it is difficult to assess as of now.

Moving on to our European Operations, the economic slowdown continued in Europe. For the tyre industry, the volumes were down by 12% due to a slowdown in the replacement market and European Industry facing significant decline in new vehicle sales. Apollo Vredestein also suffered some decline in volumes. However, with significant product mix improvement, the topline for European Operations was maintained. The sales for the quarter were at Rs 8 billion with a growth rate of 6% over the same period last year. The EBITDA margin was Rs 1.4 billion at 17%, compared to a 13.7% for the same period last year; and the net profit was in excess of 10% compared to about 7.5% for the same period last year. The primary contributors to healthier profit were mix improvement and the raw material scenario.

Brand Apollo, which has been introduced in Europe, continues to grow and the Company is looking to add new geographies apart from the ones where brand

Apollo is present. Looking at the overall market, the Company undertook some production cuts in Europe for the first time, since it has gone in to correct the inventory level and will continue to monitor the demand situation adequately to temper production in a manner that does not build up significant inventories.

Lastly, regarding the next quarter, which is critical from a winter season perspective, early signs of winter have been good; there has been snow in parts of Germany and Austria etc., which holds good for European Operations.

Lastly, the Apollo team has met some of you recently and you would have heard about our decision on the QIP. The shareholder approval is expected shortly and then based on market conditions and pricing, the company would take a decision on the appropriate time frame for looking at the equity issue; the decision on quantum and price would be taken then. Apollo has simultaneously approved, in Board, an issue of warrants to the promoters up to 27.5 million with an objective that if it does go ahead with the QIP, the promoters will increase their share holding through this route. The pricing of this would be worked out as per the SEBI formula, but would under no circumstances be lower than the QIP price. That is all from Apollo Tyres, the team would be happy to take your questions.

**Jasdeep Walia,
Kotak Securities**

Can you elaborate on the use of the proposed fund raising?

Gaurav Kumar

The Company is looking at various organic projects. As mentioned earlier, Apollo is growing some of the international markets, from Indian Operations, which are ASEAN, Australia etc. Apollo has have placed local people on the ground after some years of developing that market as an export market. So currently, the Company is, evaluating setting up a greenfield plant in the ASEAN region, which would be our first organic project. At some point in time, Apollo would come back to its earlier stated project of looking at a greenfield in Eastern Europe as it continues to grow sales in Europe, which initially would be supplied from the Indian plants and ASEAN plant. Lastly, as radialisation increases in India, Apollo has already started and will continue to convert some of the truck cross ply capacities into other product segments, namely industrial tyres, OHT tyres etc., and the general maintenance Capex. So broadly these would be the use of the proceeds along with internal cash flows. Also the objective is that as the Company goes through the Capex, it would want its balance sheet to be in a position which is slightly less leveraged than where it had been in the last few years with the Chennai greenfield; so that if any opportunity was to come up in terms of an inorganic growth, the Company will have the ability to consider it and if it makes sense, look at it more actively.

Jasdeep Walia`

On the opportunity on the inorganic front, could you give us an idea on what is your thought process on acquisition? What are you looking at when you evaluate companies in terms of access to market or technology?

- Gaurav Kumar** As per Apollo's internal process, we go through various filters. Any opportunity is first looked at from a strategic filter in terms of what it brings on to the table for Apollo, which could be market access, brand, technology/product categories where the Company wants to build greater strengthen. Then, the Company assesses its own ability and if it comfortable from a cultural integration point of view. If these strategic and cultural filters are passed, then the target is evaluated from a financial point of view.
- Jasdeep Walia`** What is the maximum size of the targets that you can look at? Why I am asking this question is because I want to understand what kind of leverage an inorganic opportunity creates in your balance sheet? And what are you comfortable with in terms of leverage?
- Gaurav Kumar** Apollo looks at a target not from its size perspective, but from a strategic, cultural fit and financial perspective. The financial perspective is basically the ability to digest the acquisition in terms of the balance sheet strength and financial viability of the entity. Typically, the leverage norm which lenders are comfortable with is around 1 or 1.1 on net debt equity, and on the net debt to EBITDA the norms are around 3.5 currently.
- Jasdeep Walia`** Lastly, there has been decline in promoter shareholding? Can you elaborate?
- Gaurav Kumar** This is relating to an earlier case where certain shares had been picked up by the promoters, under the order of a special court from Harshad Mehta times, in early 90s. As per the latest ruling from the Supreme Court, those shares, which had been picked up through an auction process, had to be surrendered. So promoters haven't sold any of their share holding but have surrendered to the Custodian that portion of the share holding which was picked up in the early 90s, and that is the reason for decline in promoter's shareholding.
- Jasdeep Walia`** So, the shareholding has gone to the custodian and not to family of Harshad Mehta?
- Gaurav Kumar** That is correct. The Custodian would dispose it of it in an adequate manner.
- Jasdeep Walia`** Can you elaborate what does dispose it in an adequate manner mean?
- Gaurav Kumar** Not sure what the exact laws are. As per my knowledge, they would dispose it in an open market to financial institutions, etc. And the proceeds would go to the trust of Harshad Mehta's family and there is a certain consideration which would be given back to the promoters, which is the price they paid for the shares along with interest for all these years.
- Abhijit Bora, IFCI Financials** Has there been any price cut in the passenger car tyre segment?

- Gaurav Kumar** There has been no price cut. Certain players, in light of the overall demand situation, may have introduced special schemes etc., at some point of time; which is difficult to keep a track of.
- Abhijit Bora** Has Apollo also come out with some schemes similar to other players?
- Gaurav Kumar** I would not have knowledge of specific schemes. These are managed by the sales and marketing team based on what the overall market situation is and what the competition is doing.
- Neeraj Gaur,
Franklin
Templeton** I was just going through your last quarterly call transcript, where somebody asked you regarding an expansion in South East Asia. You mentioned that these were clearly marketing expansions and not capacity expansions. Is that a sudden decision by the Management to go into South East Asia? As now you are saying that it will be a priority over Eastern Europe. So what is the rationale behind that?
- Gaurav Kumar** The Company's earlier priority was Eastern Europe, given the kind of growth that was seen in Europe, including constant capacity shortages. However, with the European volumes declining significantly in the current year and the uncertain economic environment, Apollo did not want to build capacities just then. This is other growth geographies were considered. The ASEAN region continues to grow and the Company felt comfortable with the kind of presence it had established with regards to its sales and marketing. A significant organic expansion in terms of a manufacturing facility could be considered. Please also bear in mind that as this decision is taken and actual manufacturing begins, it would be almost 2 years away from today.
- Neeraj Gaur** Could you consider sharing the number of tyres sold in various product categories on a consolidated basis, as this information is very helpful and in line with the practice followed by the global tyres companies?
- Gaurav Kumar** Will consider that internally and come back to you.
- Mahantesh S,
Fortune Equity
Brokers** What is the current maturity debt in your balance sheet? I presume it is part of other current liabilities. I understand that the long-term borrowing that is falling due this year will be termed as current maturity debt and form part of other current liabilities. Am I right in that understanding and what is the amount?
- Gaurav Kumar** That is correct broadly.
- Mahantesh S** And what is the amount of total debt?

- Gaurav Kumar** The total net debt for India Operations is approximately Rs 21 billion. On a consolidated basis, the net debt is approximately Rs 29 billion.
- Mahantesh S** Your project typically takes 2 years for the production to commence. So now that you are looking at a QIP issue to fund one of your ASEAN expansions, have you had a project financial closure as of now?
- Gaurav Kumar** Do not have a project financial closure because as of now the exact site has been firmed up. There is a team working on potential locations and the Company expects to take that decision soon. Financial closure can only be achieved with the financial institutions, once you mention the specific site, exact amount of investment, etc. So the Company has broadly framed internally as to what is the size it is looking at and the likely potential investment, but it has not been worked out in a detail to a level where one can achieve financial closure. However, from broad indications of dialogues with potential partners, the Company feels very confident of being able to achieve financial closure on any such project.
- Mahantesh S** And one of the conditions for the financial closure would be your own contribution to the project, which would typically come from the QIP. So are you not timing the QIP a little too early before you have firmed up your project in terms of site and level of investments? Or in other words do I interpret your QIP will actually happen 2-3months down the line when you are in a better position to achieve the financial closure?
- Gaurav Kumar** Difficult to comment as to when exactly the QIP would happen. The shareholder approval is expected in a few days and hence, have 12-month period including opening the QIP immediately. You are right in saying that Apollo does not need to start investing in a Greenfield immediately and the timing could be as per its choice. Will look at market conditions and pricing and take that decision appropriately. If the money is raised immediately, it could probably go on to reduce some of the higher cost debt; and then the Company can take appropriate decisions as the Greenfield comes up. But we intend to move fairly quickly on our first organic growth project.
- Mahantesh S,
Quant Capital** As you said that on a quarter-on-quarter basis your raw materials cost has come down a bit. But on a standalone P&L it seems it has gone up by 170 basis points quarter-on-quarter.
- Gaurav Kumar** While I will get the details if you can point to the exact figure, broadly the raw materials cost would have also gone up because Apollo would have started with the raw materials or the stock which was valued at a higher cost. The raw material has continued to come down through the quarter; so there would be also a stock impact built-in, which impacts the profitability because the quarter begins with higher valued stock and ends with lower valued stock.

- Mahantesh S** But what is your average costing for each of the prime raw materials?
- Gaurav Kumar** The average cost of Natural Rubber was at approximately Rs 210 per kg, Synthetic Rubber at approximately Rs 170; Tyre Cord Fabric was approximately Rs 250 and Carbon Black approximately Rs 80.
- Mahantesh S** There have been series of TV advertisements for your tyres but it does not seem to get reflected in other expenditure. In fact, it is down quarter-on-quarter. So is that already accounted in the numbers or is it going to be in the next quarter?
- Gaurav Kumar** The campaign would continue to be accounted. So whatever expenditure has been incurred would have been accounted for and it is a series that will keep going on. So the expenditure will come in. It is a conscious decision, that has been taken some time back, that Apollo was low in spends on sales and marketing, and R&D, as compared to some of the global players – considering its ambitions to play in a larger global arena and grow presence in various markets; which is why there has been a specific focus on, apart from the product spends, having a corporate campaign. Similarly, with focus on R&D, Apollo has now created 2 R&D centres. There is a commercial vehicle R&D centre that would come up in Chennai and focus primarily on truck bus tyres, farm tyres and other industrial tyres segment. And there is a passenger car R&D centre which is now being strengthened in the Netherlands, at a separate location from the Apollo Vredestein factory; some employees from India are getting transferred to the Netherlands to ensure that the entire R&D work for all 3 geographies can be carried out from there.
- Mahantesh S** What percentage of Apollo Vredestein revenue was sourced from India, this quarter?
- Gaurav Kumar** This quarter the Indian Operations or Indian sourcing would have contributed little about 7to 8%.
- Mahantesh S** Can you share the consolidated sales tonnage?
- Gaurav Kumar** We do not share the consolidated tonnage because the European Operations do not measure the output in tonnage.
- Mahantesh S** And for India Operations this quarter, how much was the imported items as a percentage of your raw material?
- Gaurav Kumar** Do not have an exact percentage, but India Operations nearly imports half of its raw materials requirement and that could vary from quarter to quarter depending on the decisions taken by the purchase team. You could broadly take it at 50%.
- Mahantesh S** Can we expect some benefit for rupee reaching to Rs 54 below levels?

Gaurav Kumar We expect the raw materials scenario to remain fairly stable as per all signs now.

**Ronak Sarda,
Marwadi Shares &
Finance Limited**

A couple of questions on the European Operations. Can you give the euro currency sales growth?

Gaurav Kumar The European sales were flat vis-à-vis last year. There was no growth.

Ronak Sarda And sequentially?

Gaurav Kumar Sequentially, they were up 24%.

Ronak Sarda And secondly, dealers are taking up less stock, than what they used to keep, primarily because of the slowdown or due to the financial constraints?

Gaurav Kumar With the overall economic situation in Europe being uncertain, dealers are being cautious in what they pick up. So typically they are waiting and watching, specifically in case of winter tyres; they wait for signs of a good winter season before they pick up winter tyres.

Ronak Sarda So is it primarily because of the slowdown or also because the financial ability to keep up the inventory has been impacted?

Gaurav Kumar Primarily because of the slowdown. Bulk of Apollo's sales are in geographies which continue to do well, substantial portion of them being in Germany. So if the market was really bad, the Company wouldn't have been able to have the kind of product mix improvement that it has had. And in both quarters topline has been maintained.

Ronak Sarda On the segmental results, there has been a major change in the capital employed for the 3 geographies, between the June quarter and September quarter.

**Rakesh Dewan,
Apollo Tyres**

Actually we have done some regroupings as per the requirements of the accounting standards. Earlier eliminations were already netted off from geographies like India, South Africa and Europe. But now, eliminations are shown separately as a line item. That is more appropriate and in line with accounting practices.

Ronak Sarda So it is more of intercompany transactions?

Rakesh Dewan It is more of reclassification of line items.

Ronak Sarda Can you specify which was the line item?

Rakesh Dewan These are mainly intercompany eliminations of investments and capital.

- Ronak Sarda** What was the Capex spend in the first half on Indian and consolidated Operations?
- Gaurav Kumar** It is not readily available.
- Sumanta Khan, ICICI Prudential** Just wanted to know about the net debt numbers that you shared. In both standalone and consolidated, if I am correct, I do not see major change from March numbers and they have remained flattish. If I remember you have been telling that there is a possibility that they could come down, given you do not have major Capex plan this year.
- Gaurav Kumar** You are right that from the March levels they are flattish, with slight decline, but you need to keep into account that Operations in this current year have grown significantly. So from a working capital perspective, there is 20% increase in the working capital blockage. That is primarily a reason why debt has not come down as significantly as it would have if the top line had remained flat.
- Sumanta Khan** So going forward can we see some kind of a decline?
- Gaurav Kumar** That would also depend on the topline. The situation does not change. As of now the Capex would continue to be lower till Apollo commences with the next organic project.
- Riken Gopani, Infina Finance** The gross margins for the standalone Operations, on a sequential basis, is down by about 150 basis points. Just wanted to understand what would have impacted gross margins on a sequential basis?
- Gaurav Kumar** When you say gross margin, what is it that you imply?
- Riken Gopani** Basically sales minus the raw material cost.
- Gaurav Kumar** The primary reason for that is the stock impact, explained earlier. The Company began the quarter with higher valued stock and raw materials continued to come down during the quarter. That is the principle driver of the gross margin change.
- Riken Gopani** So what would have been your average Rubber cost for Q1 in standalone Operations?
- Gaurav Kumar** Rubber cost was marginally higher.
- Riken Gopani** So in that situation, if the average cost is the same, is there something that I am missing that would have impacted gross margins?
- Gaurav Kumar** They were a) other raw materials and b) the stock is valued at the closing point, it is not valued at the average cost. So while you will have the average cost of Q1

and an average cost of Q2, which gives you a certain picture, the stock would have been valued at the close of Q1.

- Riken Gopani** The total equity to be raised is of at least Rs 8 billion and the proceeds from the issue of warrants would be in additions to that, right?
- Gaurav Kumar** Yes, the warrants would be in addition to that. Again to reiterate, the decision on quantum is yet to be taken. What actual amount is finally decided by the Board, is a decision that is yet to be taken.
- Riken Gopani** And one last thing on the issue regarding shareholding to be transferred to the trust in Harshad Mehta's case. If I am not wrong, it was about 5% that had to be transferred? Is the entire transfer over as the shareholding has not come down by 5%?
- Gaurav Kumar** You are right, it was 5% of the then capital. Since the capital has expanded since then, it has come down to 3% plus level; and the entire amount has been transferred.
- Nishit Jalan,
Nomura Securities** Can you share the volume growth numbers for standalone and in European business?
- Gaurav Kumar** The volume growth for standalone is 20% plus. Most of the growth for Indian Operations is coming from volume. At the European Operations, there is a volume decline and this entirely has been made up through the product mix improvements.
- Nishit Jalan** 7% volume decline YoY?
- Gaurav Kumar** Not sure. Could be close to 10%.
- Deepak Gupta,
Kotak Mutual
Fund** In your standalone results the finance costs have gone up. What could be the reason?
- Gaurav Kumar** That is because some part of the borrowing cost, which was getting capitalised earlier, is now being routed to normal Operations. That is the reason for the increase.
- Deepak Gupta** But the depreciation amount has not gone up. So is it that certain portion of the plant, which was earlier in the construction stage, has now gone into Operations?
- Rakesh Dewan** It is the impact of the borrowing cost which we used to capitalise when the projects were under commissioning. Our borrowing costs were getting

capitalised to the new Chennai plant. But now since commissioning activity is largely over, the interest cost is hitting the P&L account.

Deepak Gupta Correct, but before commissioning even depreciation you will not be charging. So, depreciation is exactly identical to the previous quarter.

Rakesh Dewan Depreciation is at the same level.

Deepak Gupta So that part of the plant, on which you said, interest has been transferred to P&L, on that part of the plant even depreciation should have been there, right.

Gaurav Kumar If you can drop in a question, the team can examine it in greater detail and get back to you.

Deepak Gupta One more question. The average cost for Natural Rubber was Rs 210 per kg.

Gaurav Kumar That is correct.

Deepak Gupta In the last conference call also, you had said the Natural Rubber cost was around Rs 210. But if you see the exchanges, the trend for Natural Rubber price has been downwards. Is there anything that we are missing out as the Natural Rubber cost has remained same for the Company.

Gaurav Kumar The price shared is the consumption price; that is including the basic price, duty, freight, etc. Also the Company is buying at different points of time. Don't have the average price for any other company to say whether Apollo was more efficient or less efficient. Q1 prices were marginally higher than the Q2 prices.

Deepak Gupta No, I was not comparing it with any other company. I was comparing it with the prices that you get from the exchanges.

Gaurav Kumar As mentioned, on the basic prices, other elements will have to added to arrive at the consumption price.

Deepak Gupta Other elements. Has there been any change in the duties, etc.?

Gaurav Kumar No, there have been no changes in the duties.

Ambrish Mishra
JM Financial

Just wanted to go back to Capex on ASEAN. Though we may not have financial closure, but is there anything to share on what kind of capacity and the segments that we are looking at?

Gaurav Kumar The Capex number etc. will get finalised in due course, which will depend on capacity. But the Company would begin with car tyres and then later on, look to build a truck bus tyre capacity. Typically when you look at the car tyre capacity,

one would consider at least 16,000 tyres per day, which would mean a capacity of about 5.5 million tyres to begin with. And for truck capacity, typically one would at least look at a few thousand tyres per day.

- Ambrish Mishra** Okay, so that is the broad capacity that we may start with?
- Gaurav Kumar** Will not start with both; would start with car tyre capacity, and then add truck bus tyre capacity in a suitable timeframe. We will have the Chennai TBR capacity available for some time to cater to the export markets; as we build the market up to a certain level, the Chennai capacity would be completely diverted back to the Indian market and then the ASEAN capacity would serve the ASEAN region and other export territories.
- Ambrish Mishra** Okay, finally, the challenges, roughly, for tyre market remains on the demand and other input costs. So if we look at, let us say from a 12 to 18 months' perspective, according to you what is the bigger challenge for a company like Apollo Tyres, which is looking to be global in nature. Is the demand a bigger challenge or raw material balancing and volatility are a greater challenge?
- Gaurav Kumar** All of them are challenges. Depending on the geography, the challenges change. For India raw material costs are a bigger challenge than they are for European Operations. In Europe, demand is a bigger challenge because the fixed cost element is higher and one would not want to under utilise the capacity. For a new geography where the footprint is small, more than demand or raw materials, the challenge is to penetrate the market and establish the brand. Overall, for any tyre company, demand and raw materials will always be a challenge.
- Abhijit Bora, IFCI International** I see that the other income increased very significantly. Is there any one-off in the other income this time?
- Gaurav Kumar** There is no significant one-off as such. Since Apollo has established Operations in some of the geographies as separate companies, the Indian Operations receive a certain amount of royalty if they sell the Indian brands through other geographies. That is one part of it. Also there has been a gain on account of Forex fluctuations, which as per the new accounting standards have to be shown separately. You could call it a one-off because we cannot predict on that continuing for any quarter.
- Abhijit Bora** So was there any Forex gain in this quarter and what is the quantum for that?
- Gaurav Kumar** The Forex gain was nearly 50% of the other income.
- Abhijit Bora** On quarter-on-quarter basis, your Rubber cost per kg was almost at similar level. But when I take the prices from the exchanges, the Rubber price in Q1 was Rs 192.8 per kg average in India and in Q2 it was Rs 180.8. Since the duties and

other levies remained constant, then on a per kg basis, it ideally should have come down. But you also mentioned that you have used the higher cost inventory, which was at the beginning of this quarter. So this is primarily resulting from the high cost inventory, am I correct on that part.

- Gaurav Kumar** Very difficult to say what is the exact answer because there would be certain days of inventory carried at the end of last quarter. If you take the simple average of all the 90 days of one quarter to the other, directionally it should give you an indication, but what has impacted the final price is very difficult to say.
- Abhijit Bora** What has been the percentage revenue coming from OEMs and from replacement?
- Gaurav Kumar** In this quarter, India received about 60% from replacement, about 30% from OEMs, and the balance from exports.
- Abhijit Bora** What was it in Q1? Just want to see the trend.
- Gaurav Kumar** Q1 was similar.
- Abhijit Bora** You mentioned that there is some margin improvement mainly on account of mix. What mix were you talking about?
- Gaurav Kumar** The mix improvement was slight. TBR would have increased. Mix improvement gets impacted by a whole lot of factors; even within passenger cars, there could be varying sizes etc.
- Abhijit Bora** TBR tyres. What trend do you expect going forward for this in the second half and FY14?
- Gaurav Kumar** As of now there are no indications to say that this trend would change. If the OEM growth returns, to which it was a couple of years back, we may move a few percentage points towards OEM, but it operates within a fairly narrow band.
- Jasdeep Walia
Kotak Securities** I just wanted to understand why your Company is exhibiting so much of hurry in order to expand capacity. You are clearly saying that demand in Europe is actually going down, so there immediate capacity expansion is not required. You might as well have gone with, let us say, only one incremental plant in ASEAN, which could have been used to supply to Europe as well as ASEAN; and that could have been funded out of internal accruals only and no capital dilution would have been required. So, why does your Company want to start such a large Capex at one go?
- Gaurav Kumar** We are starting with only one Capex. The European Capex would come in due course of time. Secondly, on the hurry to raise now, etc., there is a view to say, the Company should raise it later, and there is Management thought as to what

is the right time. Again to reiterate, the decision on quantum and timing is not yet taken. The Management will take various factors into account and finally go ahead with a decision.

- Jasdeep Walia** When do you want to start Capex on the East European plant?
- Gaurav Kumar** As of now, Apollo Tyres is concentrating on finalising the location for the ASEAN project. There is absolutely no clear timeline, but I would tend to say that it would at least be a couple of years after start of the ASEAN plant.
- Jasdeep Walia** I thought they would start in quick succession.
- Gaurav Kumar** No.
- Silky Jain,
Nirmal Bang** Just wanted to understand that the Government has imposed safeguard duty on Carbon Black imports from China. What is your take on it and how will it impact our raw material cost?
- Gaurav Kumar** The safeguard does not impact the Company much, at least for the immediate future, because it has sufficient advance license etc; overall, if Apollo Tyres did not have the advance license and were to pay that fully, it would be a small impact of approximately Rs 250 million per annum. The Company also has the choice to shift to domestic resources completely.
- Silky Jain** What are the average inventory levels of Rubber? What sort of inventory do we maintain?
- Gaurav Kumar** Typically, it is 3 weeks. Would not know of the quantum at any single point of time.
- Silky Jain** Okay, typically on an average, you maintain a 3-week inventory.
- Gaurav Kumar** That is correct.
- Nishant Vass,
ICICI Securities** With rubber producing nations like Thailand and Malaysia adjusting to cover the supply, where do you see the price trend remain in the near future for rubber?
- Gaurav Kumar** Very difficult to predict. But with all the action, the rubber prices have still remained within the band of Rs 170 to 190. They came down to a level of Rs 170, went back to 190, and then have fallen again. So, as of now, all indications are that they would be within this band.
- Nishant Vass** So even after the action, the price has not gone up. So it is a fair estimate to expect the price to remain here?

- Gaurav Kumar** That is the outlook being given.
- Nishant Vass** The second question I had on the QIP and the preferential allotment. I just wanted to know what is the size of the dilution that the Company is considering? I know you are not giving the amount on the price, but what is the level you are comfortable at with the dilution process.
- Gaurav Kumar** That is a decision that would be considered at the Board level. Very difficult to comment.
- Nishant Vass** Would you like to give us a stand from your side, may be different from the Board.
- Gaurav Kumar** Would not want to comment on this.
- Nishant Vass** So will the promoter look at maintaining present ownership in the company with the level of the warrant you are giving?
- Gaurav Kumar** If we consider the maximum amount of both the accruals, which is the QIP and the warrants, the promoters would not maintain their shareholding; they would move up towards that, but there would be a slight decline in shareholding.
- Amit Kasat** On behalf of Standard Chartered, I thank Apollo Tyres for sharing the Q2 financial results with the participants.
- Gaurav Kumar** Thank you everybody for being on call with Apollo Tyres.

(ends)